Managing Director's Report

Financial Review

Results Review

Liquidity and Financial Resources

Human Resources

Financial Review

(I) REVIEW OF 2007 RESULTS

Turnover

The Group's turnover for 2007 reached a record high at HK$16,208 million, an increase of HK$2,844 million or 21% over 2006. The remarkable revenue growth was mainly underpinned by the achievement of double-digit revenue increase by the Property Investment segment and higher contribution from property sales both in Hong Kong and China, as recognised by the Property Development segment.

Property investment revenue grew by 15% to HK$6,506 million. Excluding hotel revenue, the Group's total rental billing increased by 17% to HK$5,534 million, made up by a 17% increase in revenue by the Hong Kong properties to HK$5,118 million and a 21% increase by the China properties to HK$416 million.

Property Development segment recorded a total revenue of HK$2,336 million (2006: HK$293 million), including HK$1,619 million mainly attributable to the sales of the Wellington Garden and Wuhan Times Square residential units in China and HK$717 million mainly attributable to the sales of the last three Gough Hill houses in Hong Kong during the year.

The Logistics segment reported aggregate revenue HK$3,625 million (2006: HK$3,506 million), mainly reflecting a 6% increase in throughput handled by Modern Terminals.

CME's revenue dropped by 4% to HK$3,797 million (2006: HK$3,947 million). i-CABLE reported a decrease in revenue by HK$244 million or 10% to HK$2,304 million under severe competition in its marketplace. This unfavourable variance was partly mitigated by an increase in revenue from other CME businesses.

Operating Profit

The Group's operating profit increased sharply by HK$2,995 million or 46% to HK$9,466 million (2006: HK$6,471 million). Apart from the favourable performance of the Property Investment and Property Development segments, the Investment segment also recorded exceptionally strong results and helped boost the Group's underlying operating profit.

Property Investment segment benefited from the continuing rental reversion and high occupancy rate. This segment continued to be an organic growth driver of the Group, recording a robust increase in operating profit by HK$728 million or 18% to HK$4,701 million.

Property Development segment contributed a particularly strong growth in profit to HK$1,127 million (2006: loss of HK$4 million). Profit recognition of property sales included HK$718 million attributable to the sold units at Wellington Garden and Wuhan Times Square in China and HK$409 million mainly attributable to the sales of the three Gough Hill houses in Hong Kong.

Logistics segment recorded a marginal increase in operating profit to HK$1,914 million, primarily owing to the increase in revenue of Modern Terminals resulting from a 6% increase in its throughput.

CME segment reported a 35% increase in operating profit to HK$365 million despite its decrease in revenue mainly as a result of its effective control over expenditures. Despite substantial pressure on its revenue, i-CABLE successfully established a lower cost base to preserve its profitability and recorded an operating profit of HK$179 million for its Pay television and HK$180 million for its Internet and multimedia segments, respectively. Wharf T&T performed well and contributed HK$47 million operating profit against a loss of HK$64 million recorded in 2006.

Investment segment produced a strong operating profit of HK$1,756 million (2006: HK$677 million) mainly due to the profit of HK$1,672 million recognised on disposal of certain available-for-sale investments.

Increase in Fair Value of Investment Properties
The Group's investment properties were revalued by an independent valuer giving a revaluation surplus of HK$9,352 million (2006: HK$7,868 million).

The attributable net surplus of HK$7,196 million (2006: HK$6,472 million), after the related deferred tax and minority interest in total of HK$2,156 million (2006: HK$1,396 million) was credited to the profit and loss account of the Group.

Finance Costs
Finance costs increased by HK$318 million to HK$1,142 million for the year under review (2006: HK$824 million) primarily as a consequence of the increase in Modern Terminals' borrowings to meet with its expanding port investment expenditures. The charge was after capitalisation of HK$187 million (2006: HK$70 million) for the Group's related assets. The Group's average effective borrowing rate was 4.8% p.a., compared to 4.7% p.a. in 2006.

Share of Results (after tax) of Associates and Jointly Controlled Entities
The share of results of associates increased by HK$126 million to HK$322 million (2006: HK$196 million), reflecting the inclusion of the profit contribution from Modern Terminals' port investment in Mega SCT in Shekou. Contribution from the jointly controlled entities of HK$27 million was also related to terminal business in China, which began to bear fruit.

Taxation
Taxation charge for the year was HK$4,247 million, (2006: HK$2,429 million), which included deferred taxation of HK$2,110 million (2006: HK$1,364 million) on the revaluation surplus of investment properties. Apart from this higher deferred tax charge, the increase in taxation was also attributable to increase in the People's Republic of China ("PRC") income tax and land appreciation tax ("LAT") charged against the profit from sales of China properties and the making of an additional provision of HK$336 million in respect of certain tax cases concerning interest deductibility under dispute with the Inland Revenue Department.

Minority Interests
Minority interests increased by HK$182 million to HK$819 million, simply reflecting the increase in net profits of the non-wholly-owned subsidiaries.

Profit Attributable to Equity Shareholders
The Group's profit attributable to equity shareholders increased by HK$2,386 million or 22% to HK$13,143 million (2006: HK$10,757 million). Earnings per share were HK$5.37 (2006: HK$4.39).

Excluding the net investment property revaluation surplus of HK$7,196 million (2006: HK$6,472 million), the Group's net profit attributable to equity shareholders would be HK$5,947 million (2006: HK$4,285 million), an increase of HK$1,662 million or 39% over 2006.

(II) LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Equity

As at 31 December 2007, the Group's net asset value attributable to equity shareholders increased by 15% to HK$86,364 million or HK$35.28 per share, from HK$75,162 million or HK$30.70 per share respectively as at 31 December 2006.

The Group's total equity, including minority interests, was HK$92,002 million as at 31 December 2007, increased by 15% from HK$79,918 million as at 31 December 2006.

In January 2008, the Company completed its rights issue for 306 million new shares at HK$30 each with a net proceeds of HK$9,110 million received and, accordingly, increased the Group's total equity to about HK$101,112 million.

Supplemental Information on Net Asset Value ("NAV")

Below is to better reflect the underlying NAV attributable to equity shareholders by adjusting the book NAV, which is prepared based on the Hong Kong Financial Reporting Standards ("HKFRSs"):

	NAV to Equity Shareholders	
	Total *HK$ Million*	**Per share** *HK$*
Book NAV (based on HKFRSs) as at 31 December 2007	86,364	35.28
Adjustments for:		
Modern Terminals (67.6%)		
based on the latest transaction price in 2005	7,086	2.89
i-CABLE (73.6%)		
based on year-end market price (@HK$1.59 p.s.)	691	0.28
Hotel properties		
based on year-end independent valuation	4,210	1.72
Deferred tax for surplus on revaluation of investment properties in Hong Kong *	12,111	4.95
Adjusted underlying NAV as at 31 December 2007	110,462	45.12
Adjusted underlying NAV as at 31 December 2006	98,198	40.11

* *As there is no capital gains tax in Hong Kong, total deferred tax liability in the amount of HK$12.1 billion as provided and included in the consolidated balance sheet would not be payable if the above-mentioned investment properties were to be sold at the revalued amounts under the current tax regime. Accordingly, such deferred tax as provided under Hong Kong Accounting Standard ("HKAS") 40 and HKAS-Interpretation ("HKAS-Int") 21 is adjusted for the above calculation in order to provide a better understanding of the underlying NAV.*

Net Cash Flows for the Group's Operating and Investing Activities

For the year under review, the Group's net cash inflow generated from operating activities was HK$4.1 billion, increased by HK$0.4 billion from HK$3.7 billion in 2006 primarily due to an increase in operating profit by HK$3.0 billion less a net increase in cash outflow under trading properties caused by acquisitions of various sites in China. Net cash of HK$9.4 billion spent for investing activities mainly consisted of Modern Terminals' payment of HK$3.2 billion for the rationalisation of its interest in Mega SCT and HK$4.2 billion for investments in jointly controlled entities involved in property development projects in China.

Capital Expenditure and Commitments

The capital expenditure incurred by the Group's core businesses during the year and related capital commitments at 31 December 2007 are analysed as follows:

Business Unit/Company	Capital Expenditure 2007 *HK$ Million*	Capital Commitments as at 31 December 2007: Authorised and Contracted for *HK$ Million*	Capital Commitments as at 31 December 2007: Authorised but not Contracted for *HK$ Million*
Property Investments/Others	589	88	57
Wharf T&T	276	108	141
Modern Terminals (67.6%-owned)	2,757	2,613	2,318
i-CABLE (73.6%-owned)	305	722	135
	3,927	3,531	2,651
As at 31 December 2006	4,569	4,573	3,635

The above capital expenditure incurred by the Property Investment segment was mainly related to certain refurbishment and renovation work for enhancing the quality and value of the Group's investment properties, in particular for Harbour City. For i-CABLE and Wharf T&T, the capital expenditures were incurred substantially for procurement of production and broadcasting equipment and additions to programming library while that for Modern Terminals was mainly incurred for construction of the Dachan Bay Phase I and Taicang Phase II ports. i-CABLE and Modern Terminals, 73.6% and 67.6%-owned respectively by the Group, funded their own capital expenditure programmes.

Apart from the above capital expenditure, the Group also incurred HK$9.0 billion for its trading properties under development in China, including HK$4.2 billion for projects undertaken through joint ventures, during 2007. In February 2007, Modern Terminals paid HK$3.2 billion in cash on completion of the rationalisation of the interests in Shekou container terminals under an agreement signed in December 2006 with China Merchants Holdings (International) Company Limited ("CMH"). On this completion, Modern Terminals and CMH injected their respective equity interests in Shekou containers terminals into a newly setup joint venture, Mega SCT, in which Modern Terminals initially holds 30% equity interests.

As at 31 December 2007, apart from the above capital commitments, the Group also committed to properties under development in China, both by the Group's subsidiaries and through jointly controlled entities, of a total amount of HK$61.5 billion (2006: HK$17.0 billion), including land cost of about HK$18.0 billion payable by instalments mainly in 2008 and 2009. These developments will be executed by stages in the forthcoming years and funded by the Group's internal financial resources, bank and other borrowings and the HK$9.1 billion proceeds from the rights issue as mentioned above. Other available resources include the HK$2.9 billion available-for-sale investments and potential proceeds from sales and pre-sales of properties.

Debts and Gearing

The Group's net debt increased by HK$6.7 billion to HK$23.6 billion as at 31 December 2007 (2006: HK$16.9 billion), which was made up of HK$31.3 billion in debts less HK$7.7 billion in bank deposits and cash. Included in the Group's debts were loans of HK$9.7 billion (2006: HK$5.5 billion) and HK$1.9 billion (2006: Nil) borrowed by its non-wholly-owned subsidiaries, Modern Terminals and HCDL respectively, which are without recourse to the Company and other subsidiaries of the Group.

As at 31 December 2007, the ratio of net debt to shareholders' equity was 27.3% and to total equity was 25.6%, compared to 22.5% and 21.1% at 31 December 2006, respectively.

In January 2008, the net proceeds of HK$9.1 billion in respect of the above-mentioned rights issue was received, which reduced the Group's net debt significantly and lowered the Group's gearing accordingly.

Finance and Availability of Facilities

The Group's available loan facilities and debt securities totally amounting to HK$49.7 billion, of which HK$31.3 billion were drawn and outstanding at 31 December 2007, are analysed as below:

	31 December 2007			
	Available Facility *HK$ Billion*	**Total Debts** *HK$ Billion*		**Undrawn Facility** *HK$ Billion*
Company/wholly-owned subsidiaries				
Committed facilities	27.3	18.9	60%	8.4
Uncommitted facilities	1.1	–	0%	1.1
	28.4	18.9	60%	9.5
Non-wholly-owned subsidiaries				
Committed and uncommitted				
– Modern Terminals Limited	17.1	9.7	31%	7.4
– Harbour Centre Development Limited	2.0	1.9	6%	0.1
– i-CABLE Communications Limited	0.6	–	0%	0.6
– Others	1.6	0.8	3%	0.8
	49.7	31.3	100%	18.4

As at 31 December 2007, HK$4,189 million of debt and certain banking facilities of the Group was secured by mortgage over properties under development, certain fixed assets, certain available-for-sale investments and certain bank deposits with total carrying value of HK$11,253 million (2006: HK$3,527 million).

The Group's debts were primarily denominated in Hong Kong dollar ("HKD"), United States dollar ("USD") and Renminbi ("RMB"). RMB borrowings were used to fund the Group's property development and port-related equity investments in China.

The use of derivative financial instruments was strictly controlled. The majority of the derivative financial instruments entered into by the Group were primarily used for management of the Group's interest rate and foreign currency exposures.

The Group maintained a reasonable level of surplus cash, which was denominated principally in HKD and RMB, to facilitate the Group's business and investment activities. As at 31 December 2007, the Group also maintained a portfolio of available-for-sale investments, primarily in blue-chip securities, with an aggregate market value of HK$2.9 billion, which is immediately available for liquidation to meet the Group's future investment commitments. The accumulated attributable surplus of the investments at 31 December 2007 amounted to HK$0.8 billion (2006: HK$1.3 billion) and is retained in reserves until the related investment is sold. Performance of the portfolio was favourably in line with market.

(III) HUMAN RESOURCES

The Group has approximately 12,600 employees as at 31 December 2007 (2006: 12,000). Employees are remunerated according to nature of the job and market trend, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for the year ended 31 December 2007 amounted to HK$2,408 million, compared to HK$2,331 million for 2006.